

Order 2004-7-24
Served: July 28, 2004



UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the **23rd day of July, 2004**

Essential Air Service at

JOPLIN, MISSOURI

Docket OST-2004-17441

under 49 U.S.C. 41731 *et seq.*

ORDER SELECTING CARRIER
AND ESTABLISHING SUBSIDY RATES

Summary

By this order, the Department is selecting Trans States Airlines, Inc., d/b/a American Connection (Trans States), to provide essential air service (EAS) at Joplin, Missouri, for the period from June 29, 2004, through July 31, 2006, at an annual subsidy rate of \$755,762. (See Appendix A for an area map.)

Background

On March 29, 2004, Trans States filed a 90-day notice of its intent to suspend its unsubsidized scheduled air service at Joplin, effective on June 28, 2004. In response, we issued Order 2004-4-7 requesting proposals for replacement service and requiring the carrier to continue to serve the community while we processed a carrier-selection case.¹

¹ Order 2004-4-7 required Trans States to provide a minimum of two nonstop or one-stop round trips each weekday and weekend to St. Louis, Missouri, using 30-seat, Jetstream 41 turboprop aircraft.

Trans States and Mesa Air Group, Inc., d/b/a Air Midwest (Air Midwest) submitted proposals in response to our request.

Proposals

Air Midwest submitted four options, all of which would provide nonstop service with 19-seat Beech 1900D turboprop aircraft. **Option 1** would provide 12 round trips per week to Kansas City International Airport for \$903,523; **Option 2** – 12 round trips per week to Dallas-Ft. Worth International Airport for \$1,849,128; **Option 3** – 18 round trips per week, 12 to Kansas City and 6 to Dallas-Ft. Worth for \$1,254,629; and **Option 4** – 18 round trips per week, 12 to Dallas-Ft. Worth and 6 to Kansas City for \$1,434,631. Air Midwest has a code-share agreement with US Airways for Kansas City service and would serve Joplin in the Kansas City market as a US Airways Express carrier. The carrier would serve Dallas-Ft. Worth as Mesa Airlines without a code-share agreement with a major air carrier.

Trans States proposes to provide Joplin with 14 nonstop round trips per week to St. Louis for \$755,762 using 30-seat Jetstream 41 turboprop aircraft. It would continue to serve the Joplin – St. Louis market as American Connection, an American Airlines code-share partner.

Community Comments

By letter dated June 30, 2004, the Interim City Manager of the City of Joplin expressed the community's preference for the selection of Trans States. The community also requested that a portion of Trans States' subsidy be used to fund a third, mid-day round trip at a total annual cost of \$1,160,762 – an amount less than three of Air Midwest's proposed options. The letter also mentioned a number of other issues. The community questioned whether Trans States would continue to operate under the American Airlines code and "thereby ... show joint fares to final destinations" beyond St. Louis. The community noted that the timing of two flights per day presented "an obstacle for Joplin passengers" connecting beyond St. Louis in the morning because of the lack of seat availability to the community's top ten destinations. The letter also noted that passengers traveling to Joplin cannot arrive until after 3:00 p.m. Finally, the City indicated that Trans States had agreed to review a community proposal to set Joplin's fares to its top 20 destinations no higher than \$40.00 to \$50.00 more than fares charged at Tulsa to the same destinations.²

² A copy of the community's letter can be found in Docket OST-2004-17441 via the Internet. Go to: <http://dms.dot.gov/search/searchFormSimple.cfm>. Enter the number: 17441 in the space for "Docket Number" and press "Search."

Decision

We have decided to select Trans States' proposal for the period from June 29, 2004, through July 31, 2006, at the annual subsidy rate of \$755,762. Our decision is consistent with the community's preference for the selection of Trans States, we find that the rate is reasonable for the service to be provided, and the carrier's performance continues to be satisfactory.

In selecting a carrier to provide subsidized essential air service, 49 U.S.C. 41733(c)(1) directs us to consider four factors: (a) the carriers' demonstrated service reliability; (b) the carriers' contractual and marketing arrangements with a larger carrier at the hub; (c) the carriers' interline arrangements with a larger carrier at the hub; and (d) community views. In addition, we have always given weight to the applicants' relative subsidy requirements.

In this case, all of the statutorily required selection criteria point toward the selection of Trans States. First, the community prefers the selection of Trans States. Second, Trans States provides service at Joplin under a code-share arrangement with American Airlines at St. Louis that offers beyond-hub benefits such as one-stop check in, interline baggage handling, through ticketing, and joint fares. Trans States has operated for many years as a scheduled carrier in general and, specifically, at Joplin. In addition, Trans States' proposal requires less subsidy than all four of Air Midwest's options. Thus, all of the selection criteria support the selection of Trans States.

While the community supports the selection of Trans States, it expresses concern about several service issues. It questions whether the carrier will continue to have a code-share agreement with American Airlines. As we have stated, the Department is required to give weight to the offering of code-share service in making EAS carrier-selection decisions. Code-sharing is common industry practice as a way to offer joint fares, thru baggage handling, frequent flyer miles, etc. to their customers, and we have no reason to believe that this code-share arrangement between Trans States and American Airlines at Joplin will not continue. Nonetheless, as with all code-share agreements, it is a business arrangement between two private parties, and there is no guarantee that it could not be amended or terminated.

We also note the community's concern with the specific timing of Trans States' first scheduled arrival of the day at Joplin -- currently at 3:46PM. While this appears to be less than ideal, the Department has little authority over carriers' schedules other than the EAS statutes that define EAS as "... flights at reasonable times considering the needs of passengers with connecting flights at the airport...." We encourage the carrier to work with the community on its scheduling needs.

As mentioned earlier, the community states that Trans States has agreed to review a proposal to set Joplin's fares so that they are no higher than \$40.00 or \$50.00 above the fares available at nearby Tulsa to Joplin's major destinations. As with the scheduling issue, we encourage the carrier and community to work together toward a mutually agreeable goal.

The community has also requested a third round trip to St. Louis. Trans States did not submit such a proposal. In addition, while we understand the community's desire for a third round trip, the core objective of the EAS program is to ensure access to the Nation's air transportation system. The EAS program typically provides subsidy to support two or three round trips a day with a 19-seat aircraft, or two round trips a day with a 30-seater.

We have also reviewed the community's historical passenger traffic in order to ensure that the selected proposal will provide sufficient capacity to accommodate historical traffic at reasonable load factors.³ During 2003, the community averaged 47.0 enplanements a day, and only 29.8 enplanements per day during the first quarter of 2004, the most recent data we have available.⁴ Two rounds trips a day on 30-seat aircraft, offering 60 seats in each direction, will accommodate the community's current traffic at a 49.7 % load factor. If demand warrants, or if persuaded by the community's support, Trans States can offer additional service at any time. We hope that through a close cooperative working relationship between Joplin and Trans States, passenger levels will increase and subsidy levels will decrease over time.

Thus, based on all of the above, we have decided to select Trans States to serve Joplin for a new two-year period as described in Appendix B at the proposed annual subsidy of \$755,762 to provide two daily nonstop round trips to St. Louis with 30-seat Jetstream 41 turboprop aircraft.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide reliable service before we may subsidize it to provide essential air service. Trans States was most recently found fit to provide scheduled passenger service by Order 2003-1-1, selecting the carrier to provide EAS at Decatur, Illinois. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. The FAA has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Trans States is fit. Based on the above, we find that Trans States is fit to provide the essential air transportation at issue in this case.

³ See Order 2004-4-7, April 7, 2004, and Appendix B.

⁴ Source: Department of Transportation, Bureau of Transportation Statistics, Air Carrier Summary Data (Form 41 and 298C), Schedule T-3 for the first quarter of 2004.

Hold-in Subsidy Rate

Trans States' service at Joplin became eligible for subsidy as of June 29, 2004, following the end of the 90-day notice period, by virtue of the Department's hold-in action under Order 2004-4-7. Our normal practice is to compensate a carrier from the beginning of the hold-in period, which in this case is June 29, 2004, until it or another carrier is selected to provide essential air service, either with or without subsidy. Thus, we will make the prospective annual rate of \$755,762 also retroactive to June 29, 2004.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department selects Trans States Airlines, Inc., d/b/a American Connection, to provide essential air service at Joplin, Missouri, as described in Appendix B for the period from June 29, 2004, through July 31, 2006;
2. We set the final rates of compensation for Trans States Airlines, Inc., d/b/a American Connection, for the provision of essential air service at Joplin, Missouri, as described in Appendix B, for the period from June 29, 2004, through July 31, 2006, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings set forth in Appendix B and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by: \$527.03;⁵
3. The Department directs Trans States Airlines, Inc., d/b/a American Connection, to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed, whichever comes earlier. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;
4. We find that Trans States Airlines, Inc., d/b/a American Connection, continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Joplin, Missouri;
5. This docket will remain open until further order of the Department; and

⁵ See Appendix B for the calculation of this rate, which assume the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of the rate may be required.

6. We will serve copies of this order on the Mayor and airport manager of Joplin, Missouri; the Governor of Missouri; the Aviation Section of the Missouri Department of Transportation; Trans States Airlines, Inc.; and Mesa Air Group, Inc.

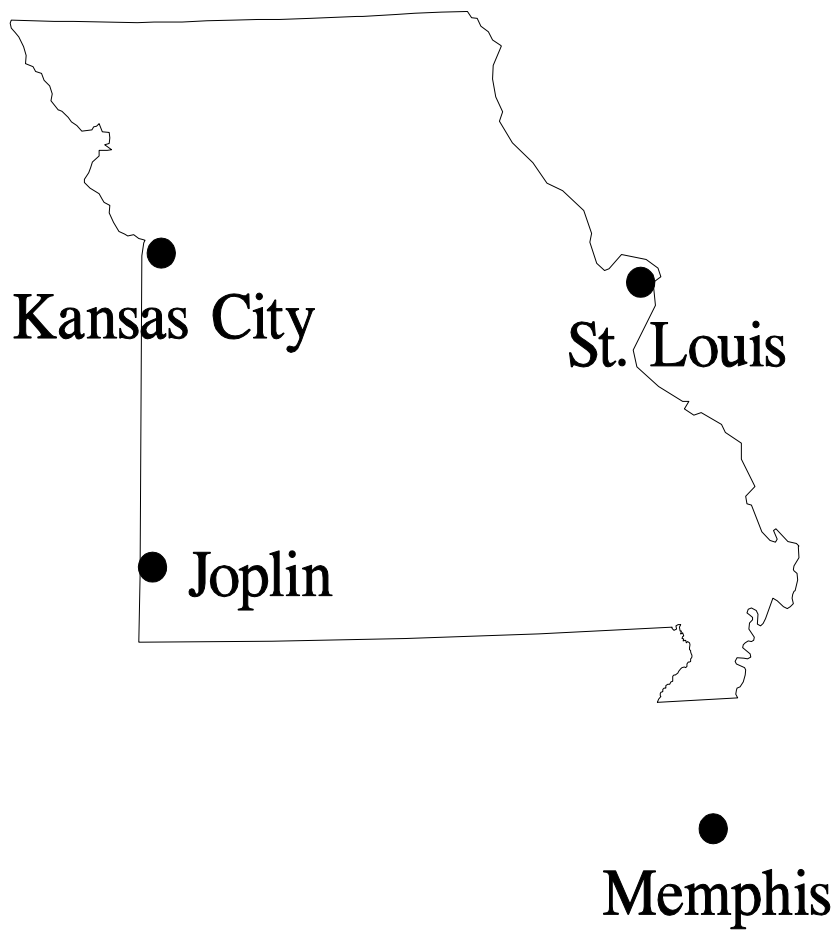
By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>*

AREA MAP



**Trans States Airlines, Inc., d/b/a American Connection
Essential Air Service at Joplin, Missouri
Docket OST-2004-17441**

<u>Effective Period:</u>	From June 29, 2004, through July 31, 2006.
<u>Service at Joplin:</u>	14 nonstop round trips per week to St. Louis, Missouri.
<u>Intermediate Stops and Upline Service:</u>	No other service to any intermediate or upline points is contemplated under the terms of this proposal; accordingly, no such service may be provided on subsidized flights without prior Department approval.
<u>Timing of Flights:</u>	Flights must be well-timed and well-spaced to ensure full compensation.
<u>Aircraft Type:</u>	Jetstream J41 turboprop aircraft (30 passenger seats).
<u>Subsidy Rate per Flight:</u>	\$527.03 ¹
<u>Weekly Compensation Ceiling:</u>	\$14,756.86 ²

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ \$755,762 compensation, divided by 1,434 one-way completed departures, calculated as follows: 28 flights per week * 52 weeks * 98.5% completion factor = 1,434 flights.

² Total of 28 flights per week * \$527.03 = \$14,756.86.

Trans States Airlines, Inc., d/b/a American Connection
Essential Air Service at Joplin, Missouri, Docket 2004-17441
Subsidy Calculation Computed on an Annual Basis

Weekly Round Trips	14
JLN - STL Miles	251
Departures: (1,456 Scheduled Departures @ a 98.5% Completion Factor)	1,434 ^{1/}
Block Hours: (Average Block Time = 1.34 hour per Flight)	1,916 ^{1/}
Available Seat Miles (ASMs):	10,799,000 ^{1/}
Passengers (Forecast):	17,210
Average Net Fare (Actual Fare 12 months ended 2/2004):	\$105.00
Revenue Passenger Miles (RPMs):	4,320,000 ^{1/}
Passenger Revenue	\$1,807,042
<u>Other Revenue (NONE)</u>	<u>0</u>
Total Revenue	<u>\$1,807,042</u>
<u>Direct Expenses:</u>	
Crew Costs (Including Training) @ \$192.25 per Block Hour:	\$368,351
Hull Insurance @ \$11.46 per Block Hour:	21,959
Fuel and oil @ 183.27 per Block Hour:	351,152
Maintenance @ \$213.52 per Block Hour:	409,105
<u>Aircraft Rental @ \$280.43 per Block Hour:</u>	<u>537,320</u>
Total Direct Expenses	<u>\$1,687,888</u>
<u>Indirect Expenses:</u>	
Station Costs @ JLN (\$175.00 per Departure):	\$125,489
Station Costs @ STL (\$195.00 per Departure):	139,831
Landing Fees @ JLN (\$10.25 per Departure: \$0.75 * 23,300 Lbs.):	7,350
Landing Fees @ STL (\$79.22 per Departure: \$3.40 * 23,300 Lbs.):	56,807
Local Marketing:	15,000
Agency and Credit Card Commissions (2.42% of pax rev: 0.42% com + 2.0% CC fees):	43,730
Reservations and Sales (\$6.50 CRS fee and AA Program Fee per Passenger):	111,864
<u>Corporate Administration @ \$0.0234 per ASM:</u>	<u>252,806</u>
Total Indirect Expense	<u>\$752,878</u>
<u>Total Operating Expenses:</u>	<u>\$2,440,766</u>
Profit @ 5% of Operating Expenses	\$122,038
Total Economic Cost	<u>\$2,562,804</u>
Annual Subsidy (Total Economic Cost – Total Annual Revenue):	<u>\$755,762</u>
Subsidy per Departure (Annual Subsidy / 1,434 Annual Departures):	<u>\$527.03</u>
Maximum Subsidy per Week (Subsidy per Departure * 28 Departures per Week)	<u>\$14,756.86</u>

^{1/} JLN-STL: 28 flights per week * 52 weeks per year * 98.5% completion factor = 1,434 annual departures; 1,434 * 1.34 block hours per flight = 1,916 annual operating hours; 1,916 * 251 miles per flight * 30 seats per departure = 10,799,000 Available Seat Miles per year.